



# Polish Chamber of Insurance

## COVID-19: A Resilient Reinsurance Market Place

Presented by: Graham Crane and Ludo Callander – Willis Re  
9<sup>th</sup> September 2021



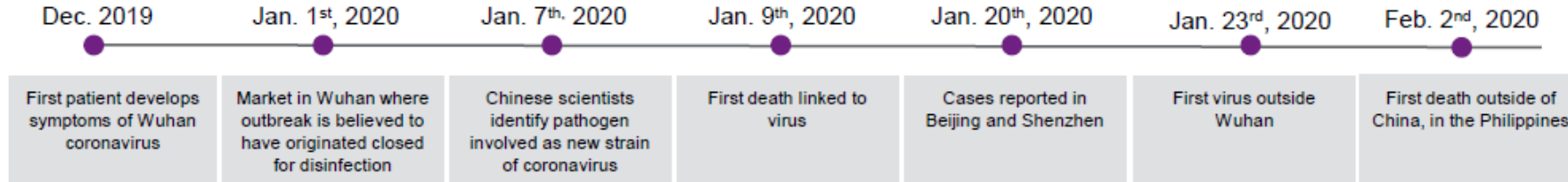
# COVID-19: A Resilient Reinsurance Market Place

## Introduction



# Introduction

## Covid 19 – Background and Timeline



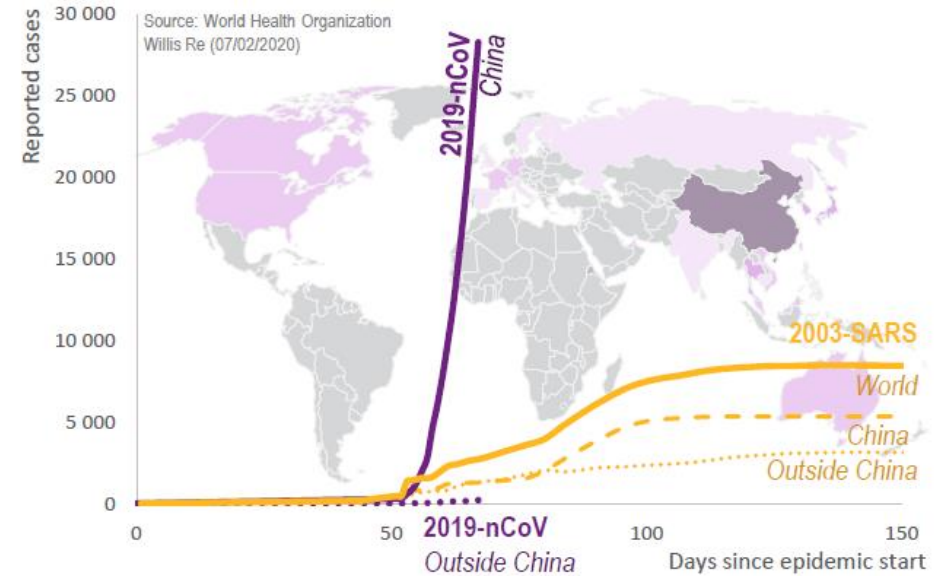
### Background and context

On 31 December 2019, Chinese officials notified the World Health Organisation (WHO) of several cases related to pneumonia in the port city of Wuhan in the Hubei province in China. At the time, it was unknown that this was the beginning of what was shortly thereafter referred to as the novel coronavirus, or 2019-nCoV as it was called then, or COVID-19 as it is now. COVID-19 belongs to the coronavirus family, which also includes severe acute respiratory syndrome (SARS) and the common cold.

On 11 March 2020, WHO characterised COVID-19 as a pandemic, mentioning concerns about the alarming levels of spread, severity and lack of action. WHO, the United Nations Foundation and partners launched the COVID-19 Solidarity Response Fund on 13 March to support the work of WHO and partners in helping countries to respond to the pandemic.

Europe was declared as the new epicentre of the pandemic by the WHO director-general on 14 March, with more reported cases and deaths than the rest of the world combined, apart from China. Since then, the number of confirmed cases and the rate of increase in the US has propelled it to the top of the table. Much of the world has instituted social distancing measures intended to curb the transmission of the disease.

### How 2019-nCoV event compares to 2002/03 SRAS epidemic – Reported cases



# Introduction

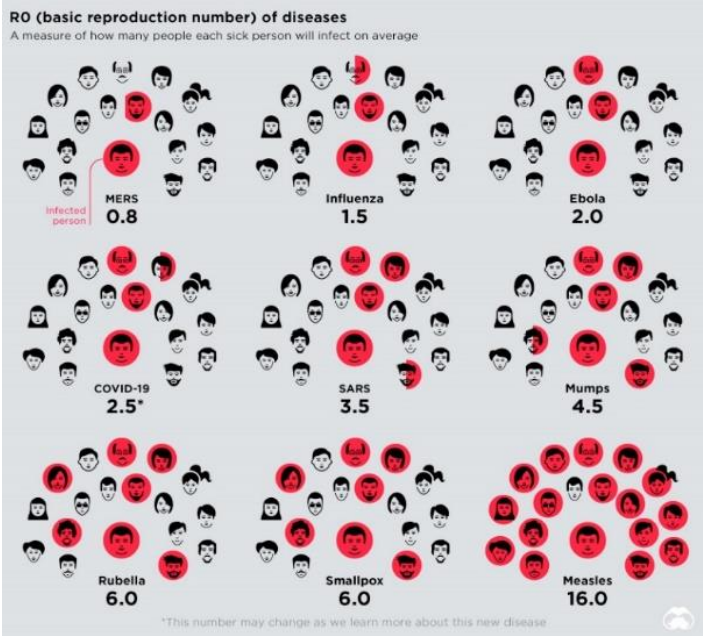
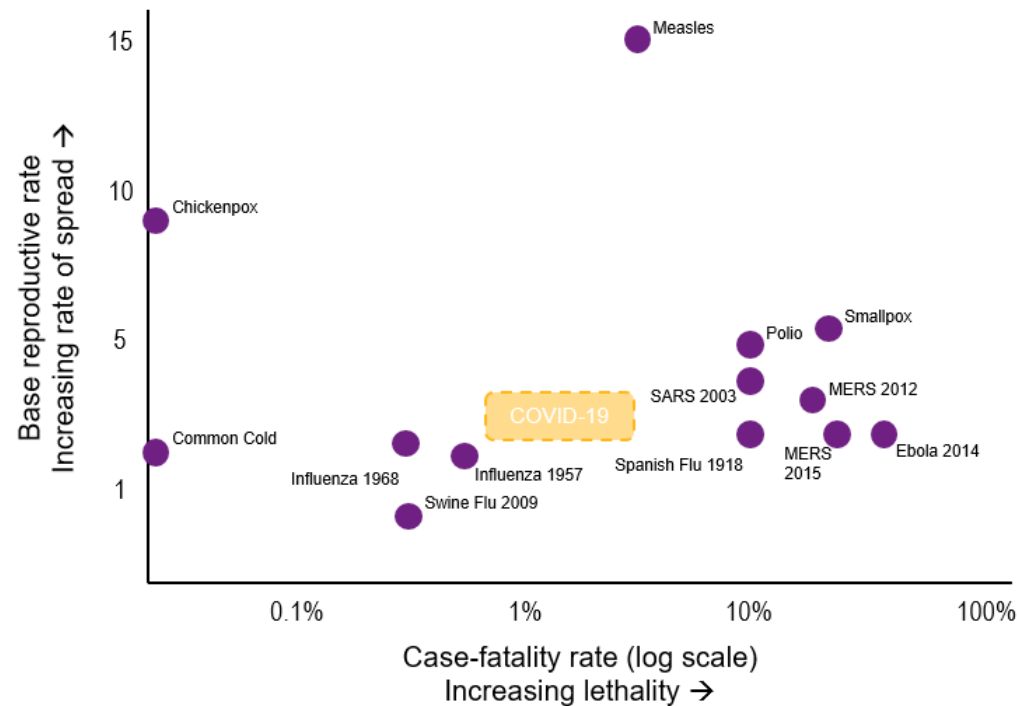


Figure 3. WTW four scenarios of COVID-19 future trajectory

Type	Proxy events	Confirmed cases	Confirmed deaths	Duration (years)
Social	1918 Spanish flu	500M	17M –100M	3
Social	1957 Asian flu	Unknown	1M – 4M	2
Social	2002 SARS	8,000	800	2
Social	2019 COVID-19: WTW scenario #1: Optimistic	3.7M	112,000	0.5
Social	2019 COVID-19: WTW scenario #2: Mild	780M	6M	1
Social	2019 COVID-19: WTW scenario #3: Severe	2.3B	31.5M	2
Social	2019 COVID-19: WTW scenario #4: Extreme	6.25B	84M	Unknown
Economic	1929 Great Depression			3.5
Economic	2008 Global Financial Crisis			1.5

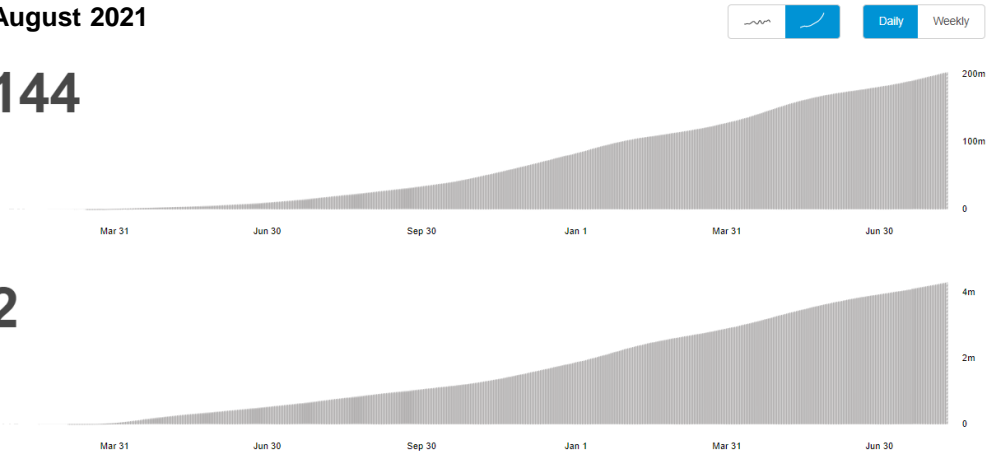
- Whilst the Covid-19 pandemic is still yet to be fully developed and understood, we can still benchmark it against other viruses and diseases
- Current statistics as at September 2021 are:
  - 219m confirmed cases
  - 4.55m deaths
- These current stats fall more or less in the predicted “Mild” range produced by WTW as at March 2020

Global Situation @ August 2021

203,944,144  
confirmed cases






4,312,902  
deaths

Source: World Health Organization  
Data may be incomplete for the current day or week.



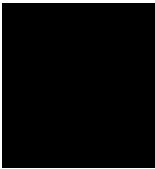
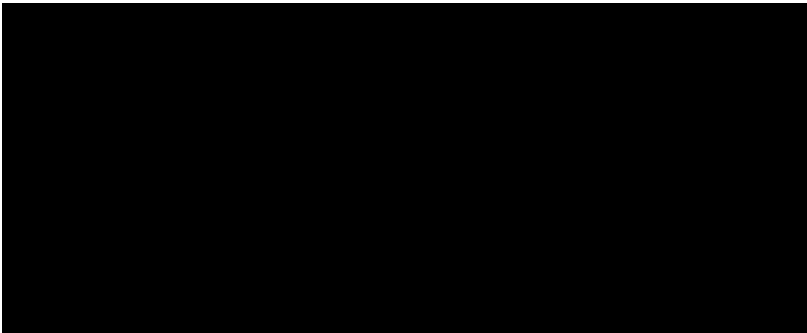
# Introduction

## Covid -19 Cases & Deaths @ 11th August 2021 by Selected Countries

Name	Cases - cumulative total	Cases - newly reported in last 24 hours	Deaths - cumulative total 	Deaths - newly reported in last 24 hours
<b>Global</b>	<b>203,944,144</b>	<b>630,656</b>	<b>4,312,902</b>	<b>9,178</b>
 Russian Federation	6,512,859	21,571	167,241 	799
 The United Kingdom	6,117,544	23,297	130,503 	146
 Italy	4,406,241	5,624	128,273 	31
 France	6,185,843	24,236	111,226 	69
 Germany	3,799,425	4,996	91,817 	14
 Poland	2,884,557	196	75,289 	4
 China	121,960	123	5,662 	1

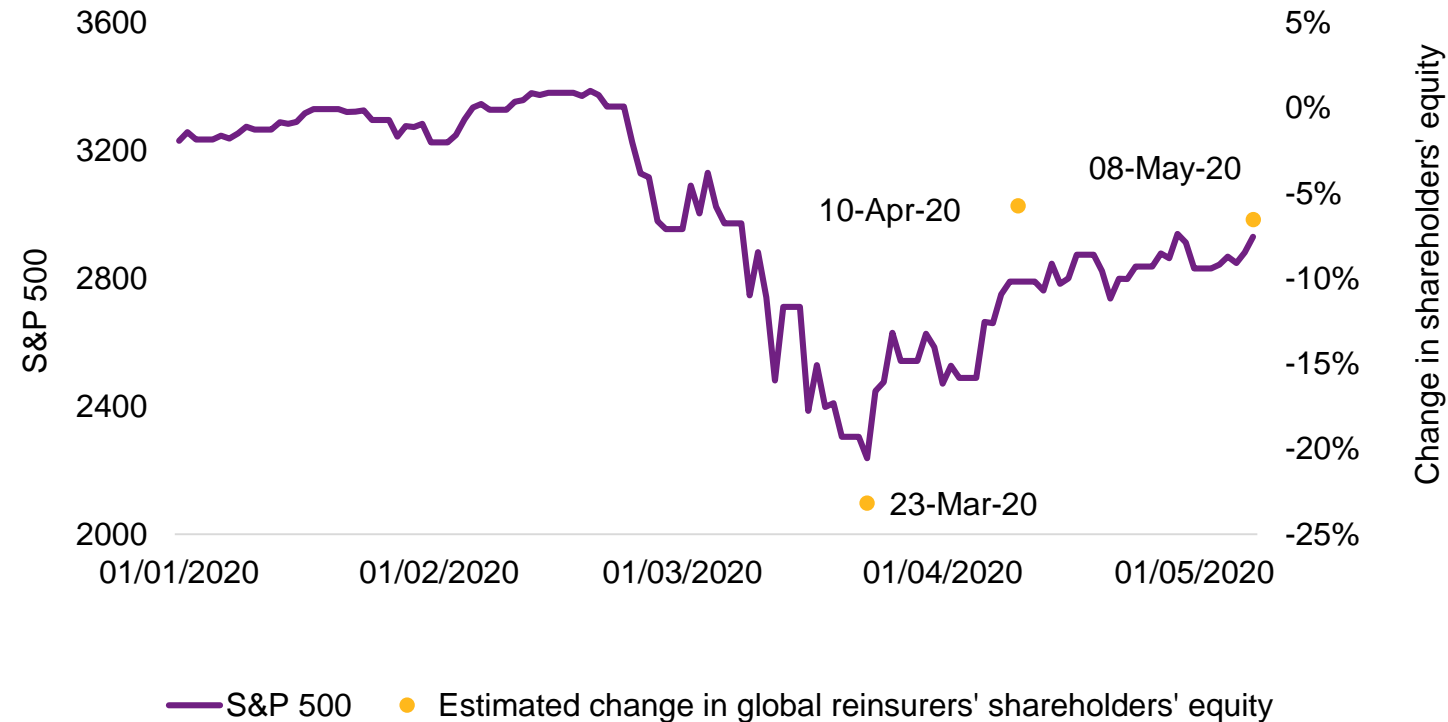
# COVID-19: A Resilient Reinsurance Market Place

## Immediate Market Impact



## Immediate Market Impact

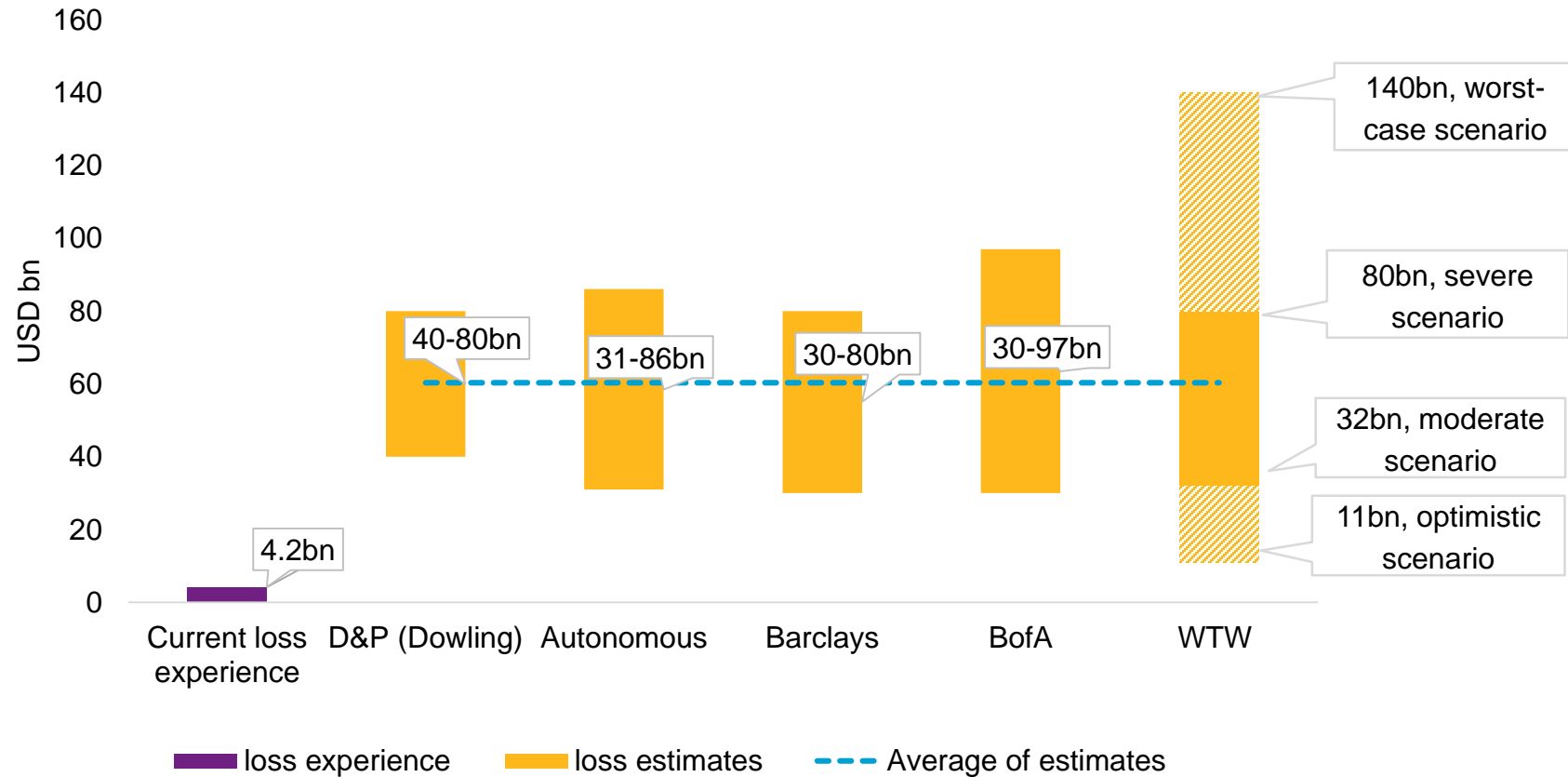
Estimated asset-side hit to reinsurance capital versus S&P 500



- When the pandemic first struck, reinsurers globally saw **savage share price sell-offs**. Covid-19 claims were initially generally expected to be manageable, the **impact of investment markets** was far greater
- The estimated the hit to the **global reinsurance capital base** at 23 March equity and **credit market declines** to be on the order of **20%**, or **\$110bn** pre-tax
- However, as **investment markets recovered**, the estimate at 1 May is a **-7%** hit to the global reinsurance capital base

# Immediate Market Impact

Covid-19 announced losses versus top-down industry estimates @ May 2020

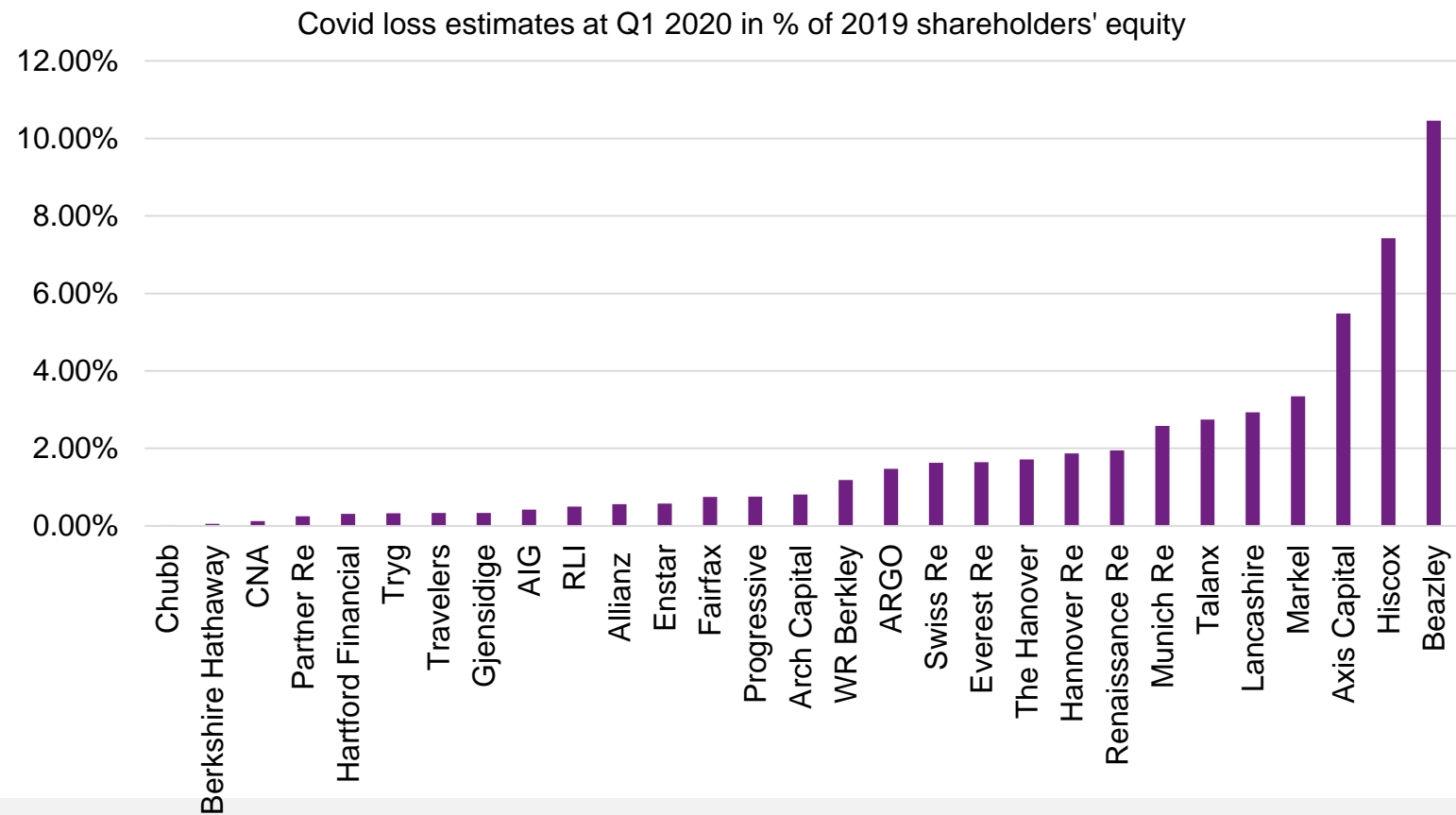


- The early consensus on Covid-19 industry loss estimates emerged, with a **broad consensus range** of roughly \$30-100bn
- Insurers by the middle of May had booked only \$4bn of Covid-19 losses. Given the **complexity of the loss**, it is not surprising that individual company booked losses **vary significantly**, with the impact ranging up to 10% of shareholders' equity.



# Immediate Market Impact

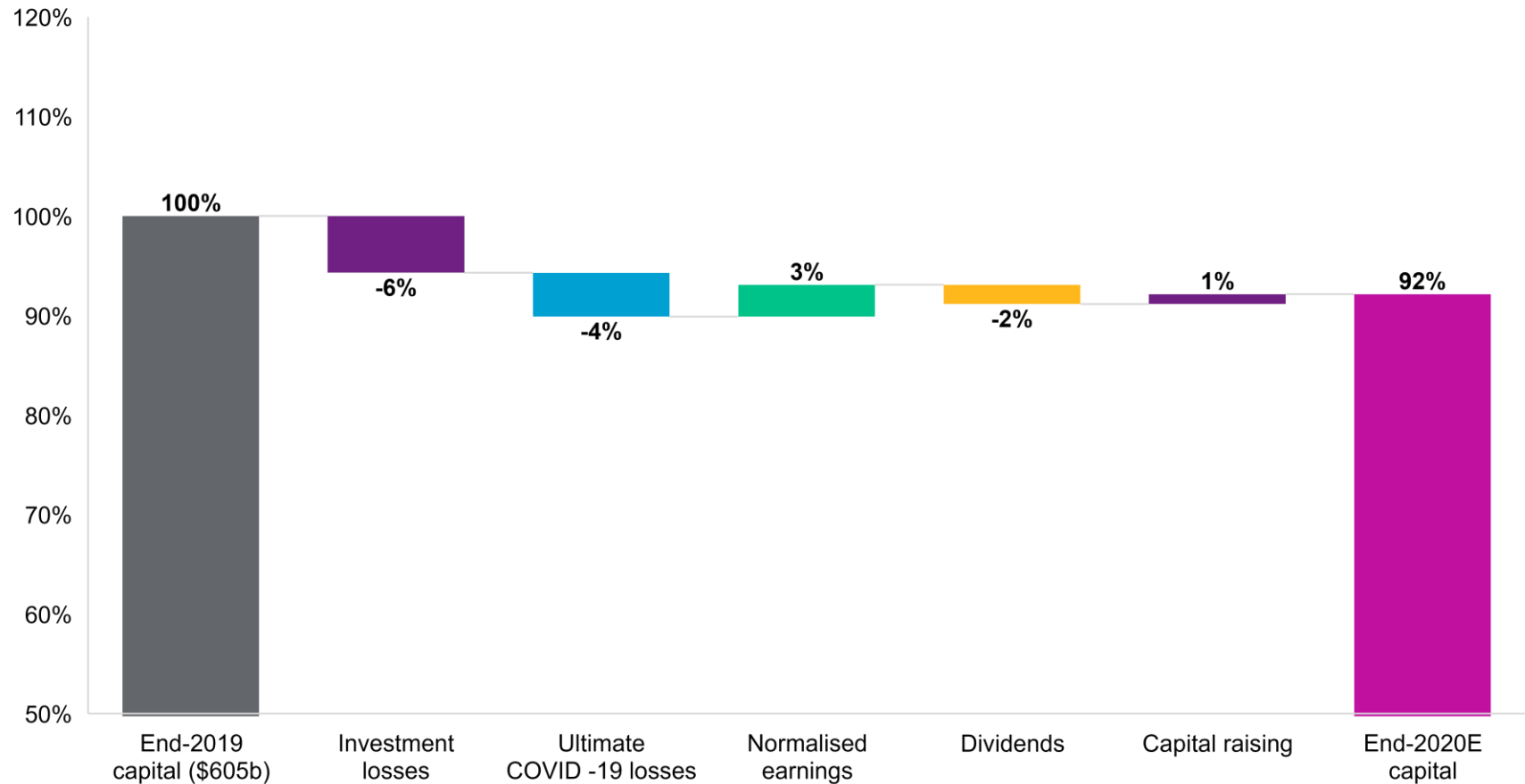
## Covid-19 loss announcements to date @ May 2020



- While there was agreement in company's reports that **significant uncertainty remains**, there was a **fairly wide range of responses** when it came to selecting a Covid-19 loss amount
- As the graph below shows, **pre-tax losses** range as high as **10%** of shareholders' equity in the case of Beazley.
- That the range is wide is not surprising, given the differences** in product mix, but there was a difference as to whether the **worst is yet to come** with the incurred loss activity more of a second quarter event

# Immediate Market Impact

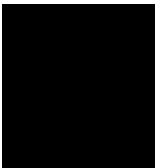
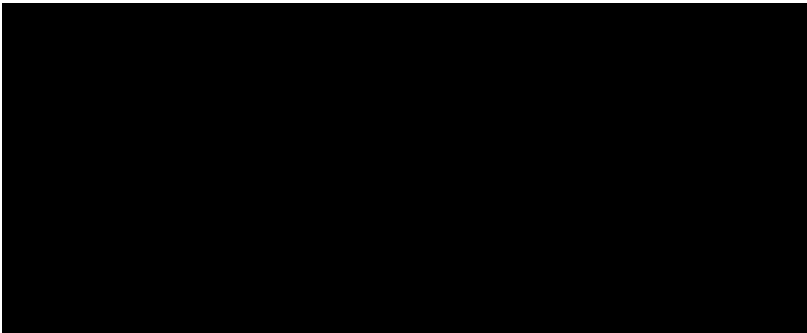
Potential impact on global reinsurance capital base predicted at the time @ June 2020



- The estimated drop in capital @ June 2020 could end up being **only slight** after previous forecasts but still a **8%** drop nonetheless

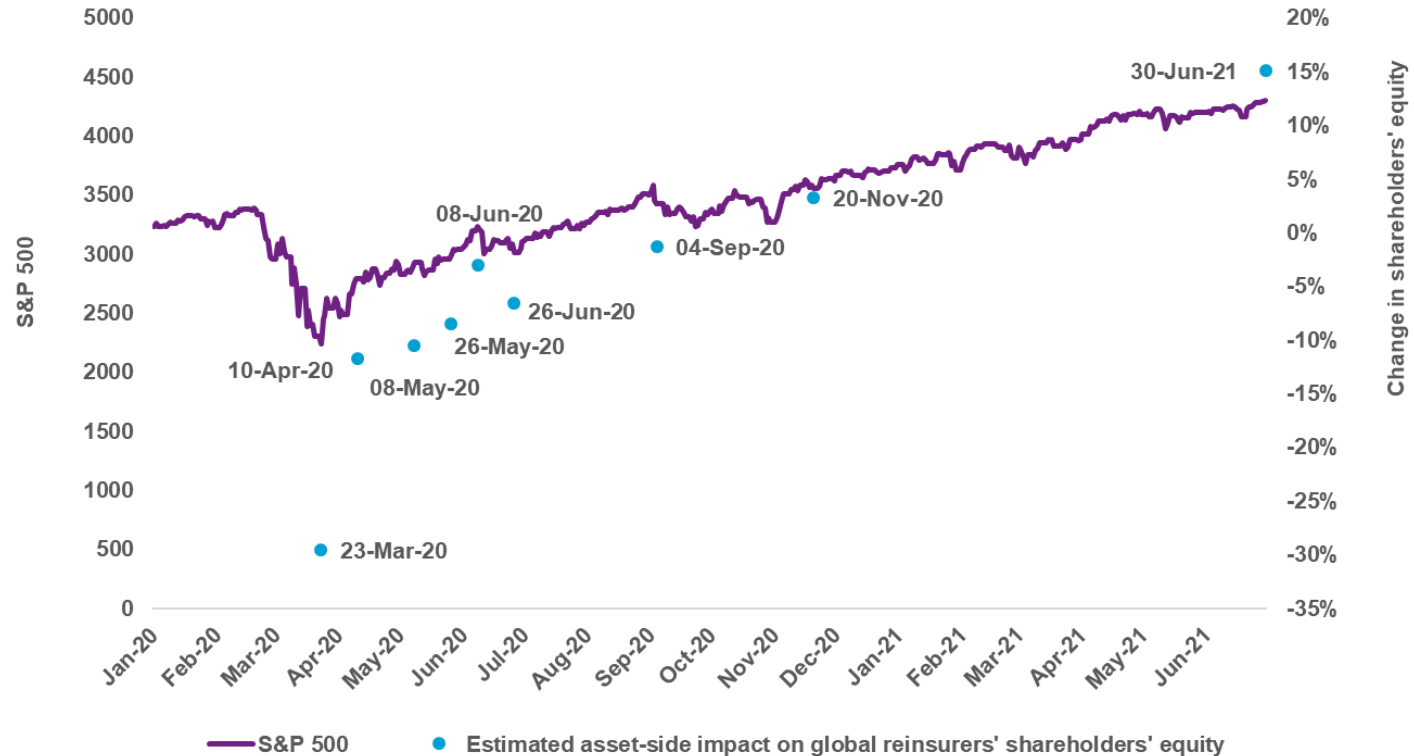
# COVID-19: A Resilient Reinsurance Market Place

## Current Market Impact



## Current Market Impact

Growth in asset values continues and (Re)insurers benefit from rising asset side support

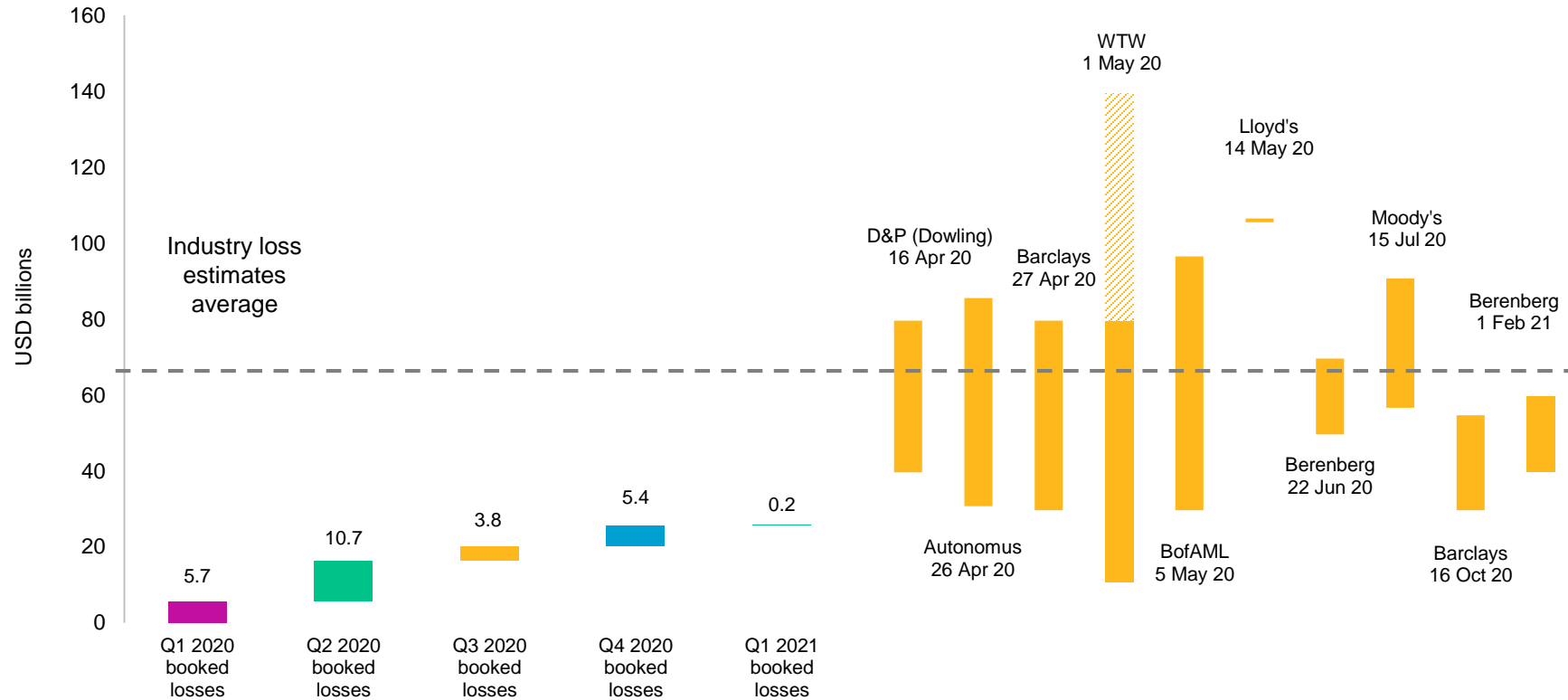


- Asset side-support to global (re)insurers equity is strong and has remained resilient during the pandemic
- We estimate that the reinsurer capital base is now +15% YTD – a considerably improvement to what was estimated at the height of the pandemic (~25% down)



## Current Market Impact

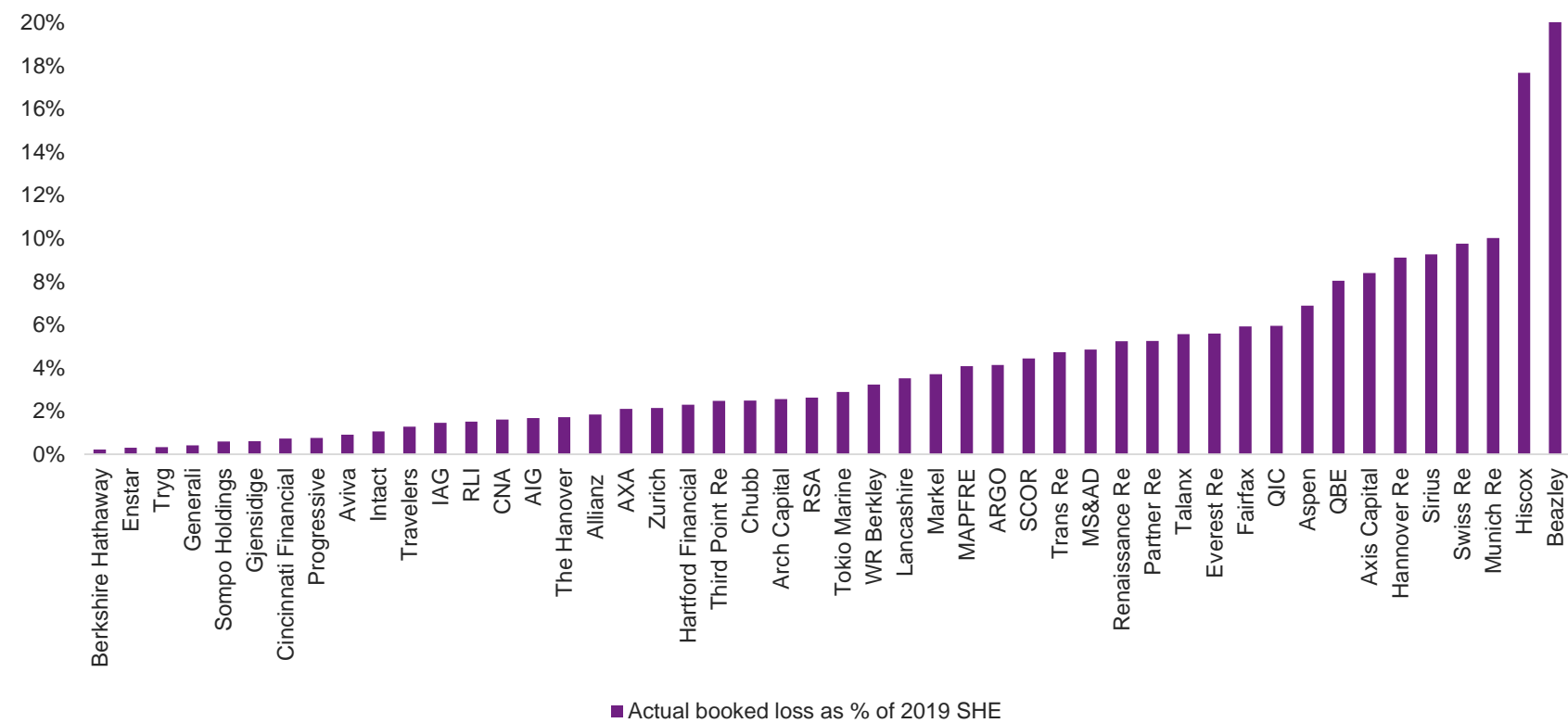
2020 booked losses were significant, but well below top-down industry loss estimates



- At Q1 2021 the **total paid losses** from Covid-19 across all lines of business stood at **USD 25bn**
- This remains considerably below the **c.\$68b mid-point** of top-down loss estimates for the global non-life industry

# Current Market Impact

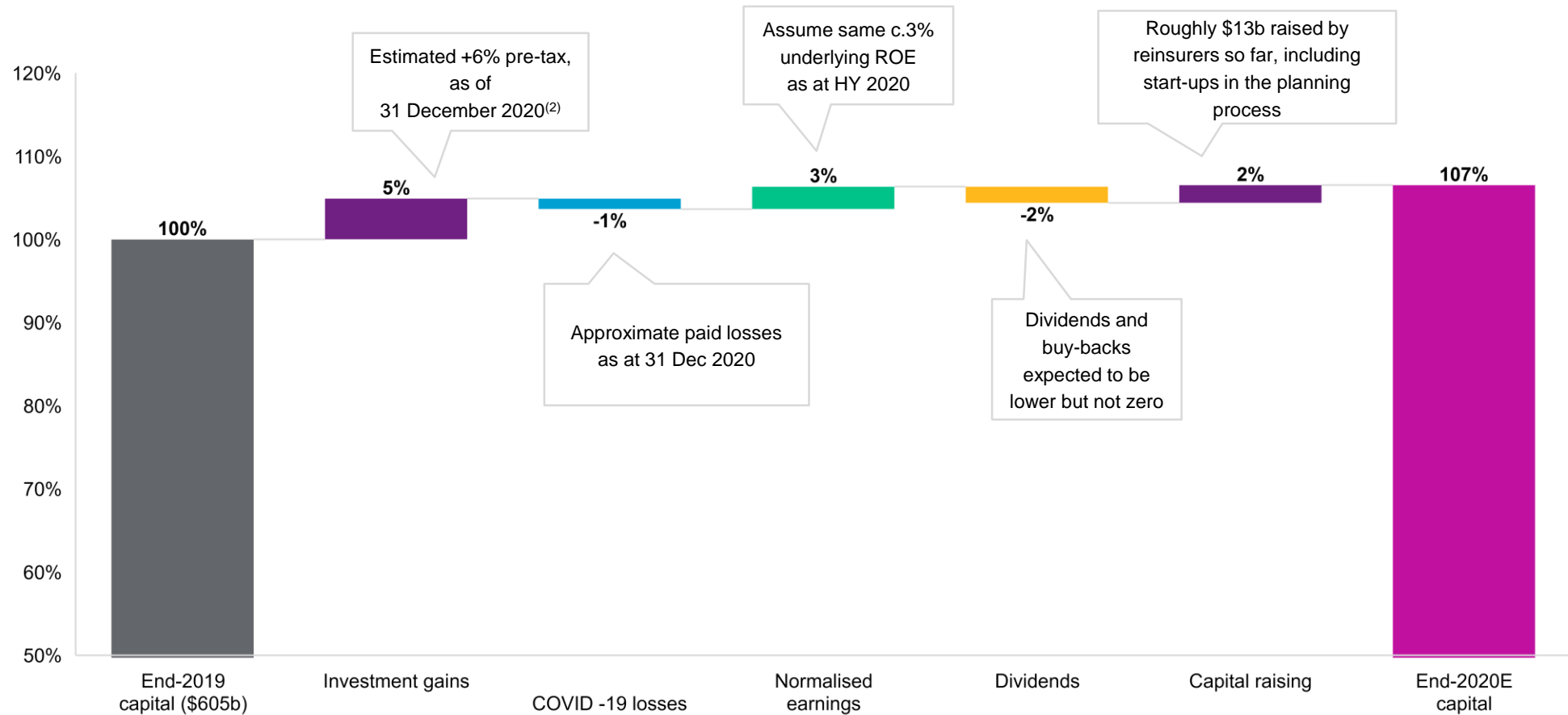
## Covid-19 loss announcements for FY 2020



- A wide range of loss announcements with significant loss creep developing due to the long-tail nature of the Covid-19 loss and uncertain IBNR levels now being clarified in court
- This is particularly in relation to business interruption (BI) covers, have now been decided in court that insurers should pay the Covid-10 claims

## Current Market Impact

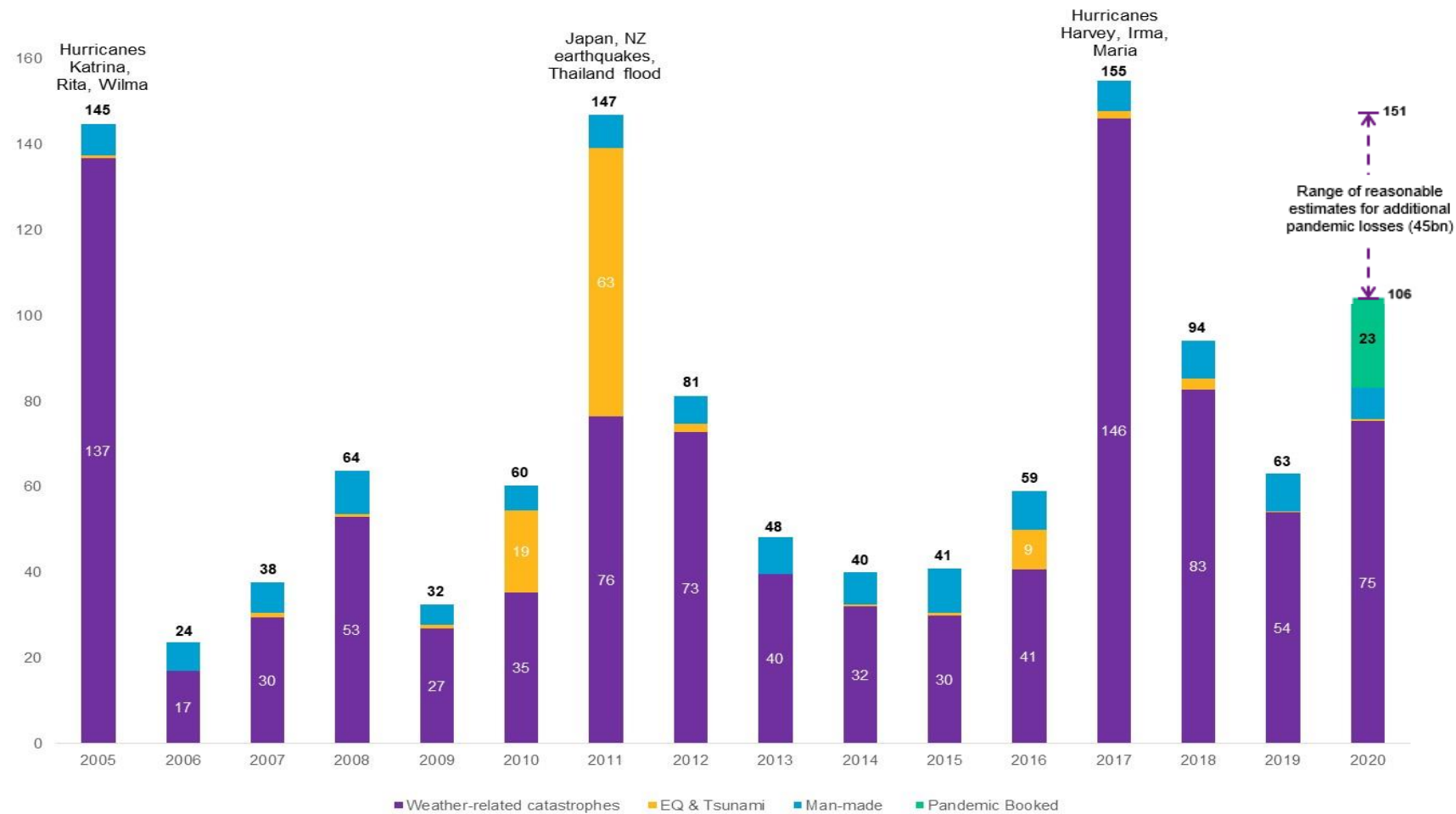
### Potential change in global reinsurance capital base



- The previous estimated drop of -8% has now changed to an estimated +7% rise in global reinsurance capital for the full 2020 year
- Such a solid finish to 2020 would hardly have been expected earlier in the year, as the COVID pandemic was gathering pace

# Insured Catastrophe losses (2005 – 2020 inc. COVID-19)

2017 – 2020 Insured Catastrophe Losses – Worst combined four years on record

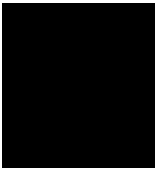
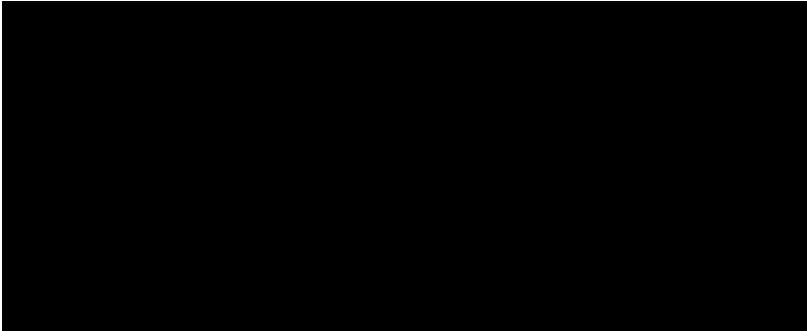


▪ Average full year losses past 10 years (2011-2020): USD 83.4 bn



# COVID-19: A Resilient Reinsurance Market Place

## Reinsurance Contract Changes



# Communicable Disease

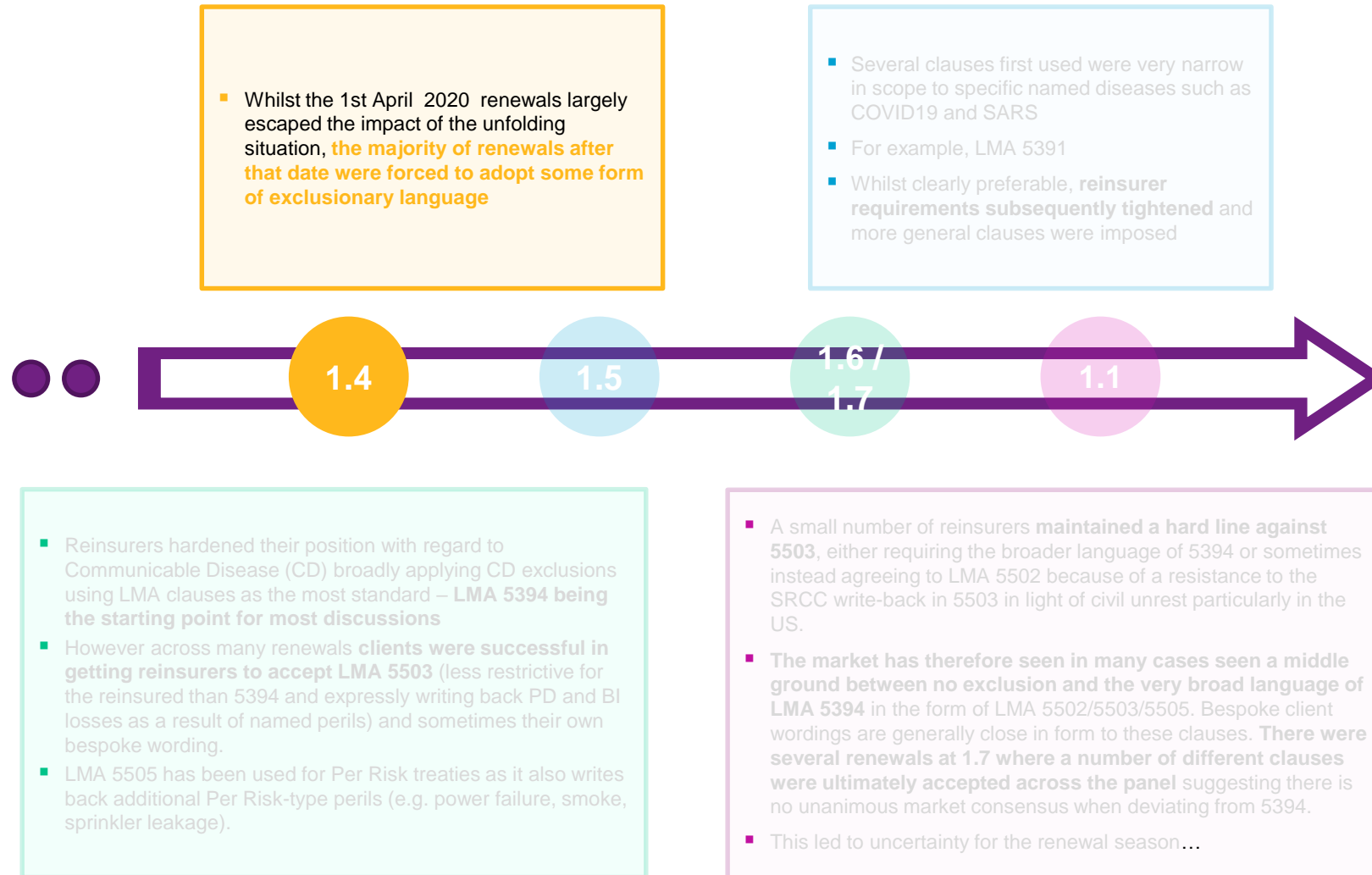
## Class of Business Affected & Likelihood of Loss

Potential source of reinsurance recoveries -

		Class of Business	Reinsurance Considerations	Contingent BI
Relatively High	Anticipated impact	<b>Contingency</b> Event cancellation Conferences	<ul style="list-style-type: none"> <li>With global participation in events, most stringent authority ruling likely applies</li> <li>Loss of revenue and sponsorship agreements insurable</li> </ul>	<p><b>General restrictions</b> - typically require property damage at third party premises of a type that would have been covered by the insured's own policy.</p> <p><b>Customer and Supply chain extensions</b> – Cover in general exclude (on a per case basis) specific disease categories such as RNS – e.g. family of respiratory virus' that contain SARS / MERS / Coronavirus</p>
		<b>Personal Accident &amp; Travel</b> Delay / cancellation	<ul style="list-style-type: none"> <li>Trigger requires government advice ('Notifiable disease') or a WHO pandemic declaration</li> <li>Hours clause and policy excess limitations</li> <li>Policy non-renewal and loss of premium</li> </ul>	
		<b>Life and A&amp;H</b> Extreme mortality Medical expenses	<ul style="list-style-type: none"> <li>Proportional treaties offer un-restricted cover for pandemic</li> <li>Low mortality on those of working age</li> <li>Medical Expenses less of an issue for now as care is via public institutions</li> </ul>	
		<b>Trade Credit &amp; Surety</b>	<ul style="list-style-type: none"> <li>Trigger for Credit is essentially bankruptcy or insolvency</li> <li>Expect some deterioration in loss ratios given supply chain disruption</li> <li>Surety covers longer term performance risk so lower impact</li> </ul>	
Relatively Low		<b>Property</b> Non-damage BI extensions	<ul style="list-style-type: none"> <li>General restrictions on original policies typically require property damage</li> <li>Hours clause and other limitations in defining an event</li> </ul>	<p><b>Non-damage BI</b></p> <p>Coverage normally restricted to first party property damage but extensions can be purchased in relation to third party suppliers (as referenced above) and/or in respect of notifiable diseases (e.g. pandemic)</p>
		<b>Liability</b> Workers Comp. / EL D&O and E&O	<ul style="list-style-type: none"> <li>Epidemic such as COVID 2019 is considered an occupational disease</li> <li>Risk excess treat each individual as own event so limited exposure</li> <li>Other non-proportional or proportional treaties likely to have restrictions</li> <li>D&amp;O responds to material adverse performance and proven negligence</li> </ul>	

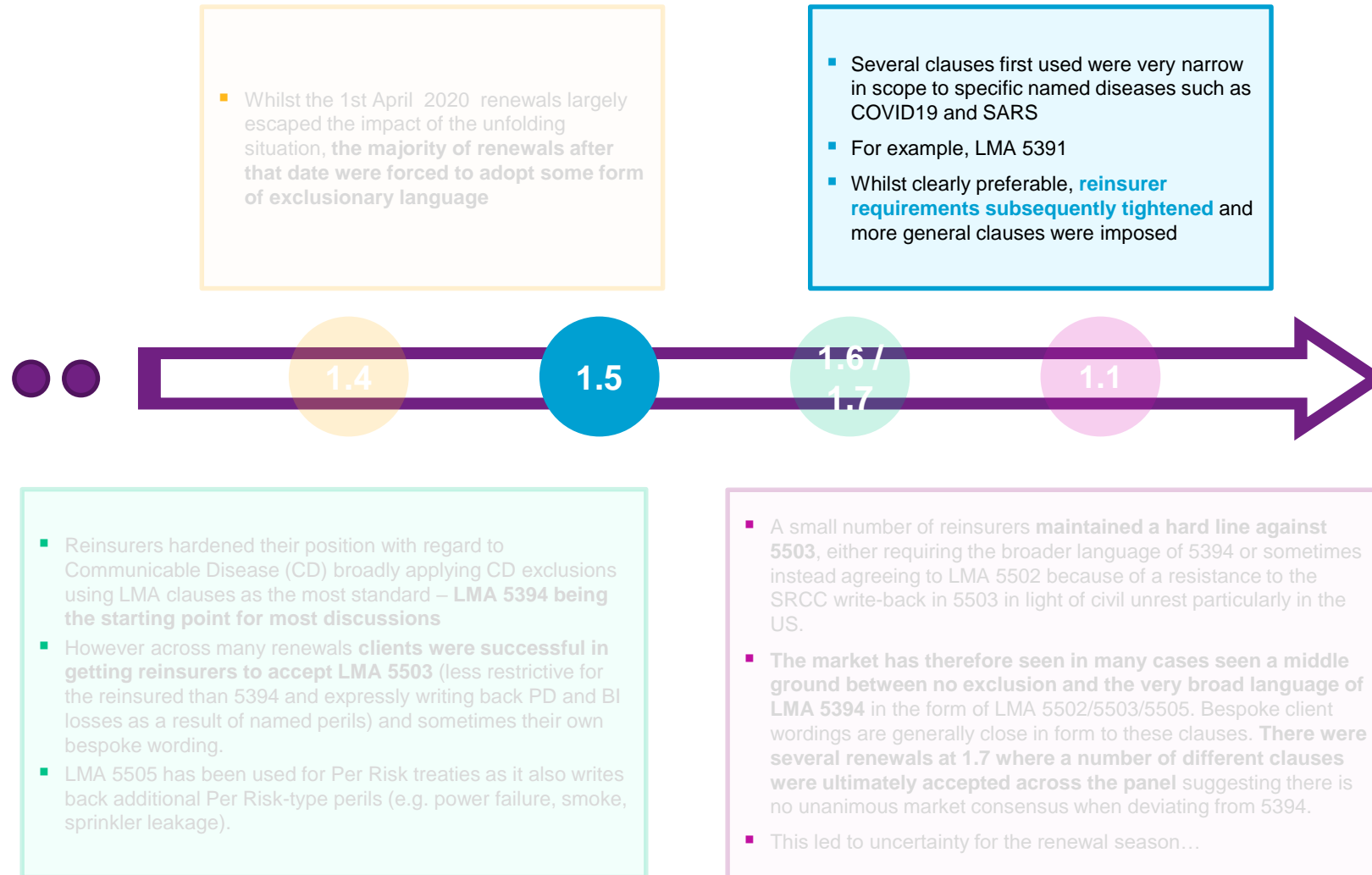
# Communicable Disease Exclusions

## Timeline of developments since 1.4.2020



# Communicable Disease Exclusions

## Timeline of developments since 1.4.2020





# Communicable Disease Exclusions

## Key Clauses - LMA 5391

### CORONAVIRUS EXCLUSION

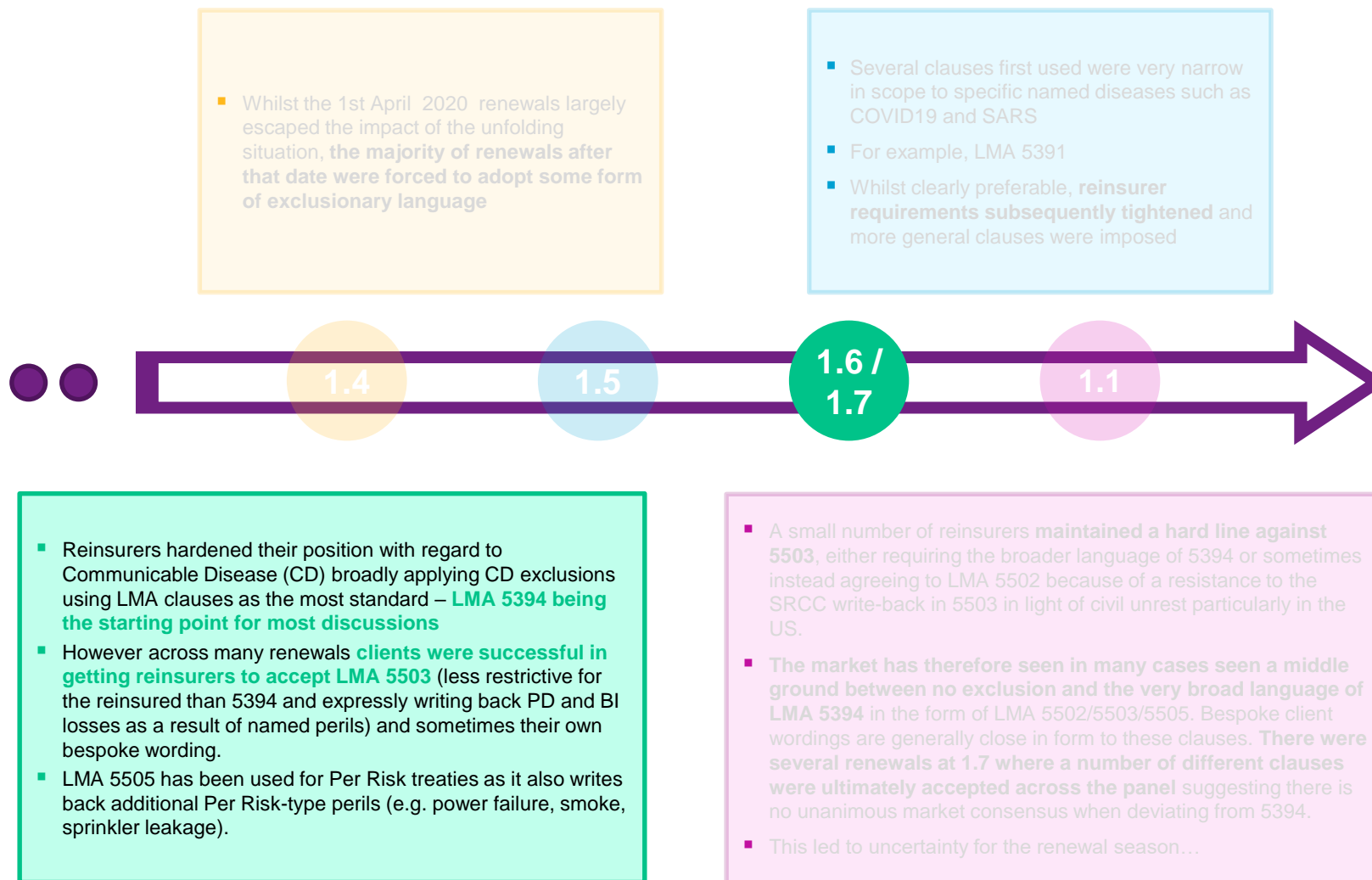
Your Insurance Policy does not / This Insurance does not {delete as applicable} cover any claim in any way caused by or resulting from:

- a) Coronavirus disease (COVID-19);
- b) Severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2);
- c) any mutation or variation of SARS-CoV-2;
- d) any fear or threat of a), b) or c) above.

**LMA 5391 only  
excludes losses  
from COVID-19  
and SARs**  
meaning all other  
pandemics will be  
covered

# Communicable Disease Exclusions

## Timeline of developments since 1.4



# Communicable Disease Exclusions

## Key Clauses - LMA 5394

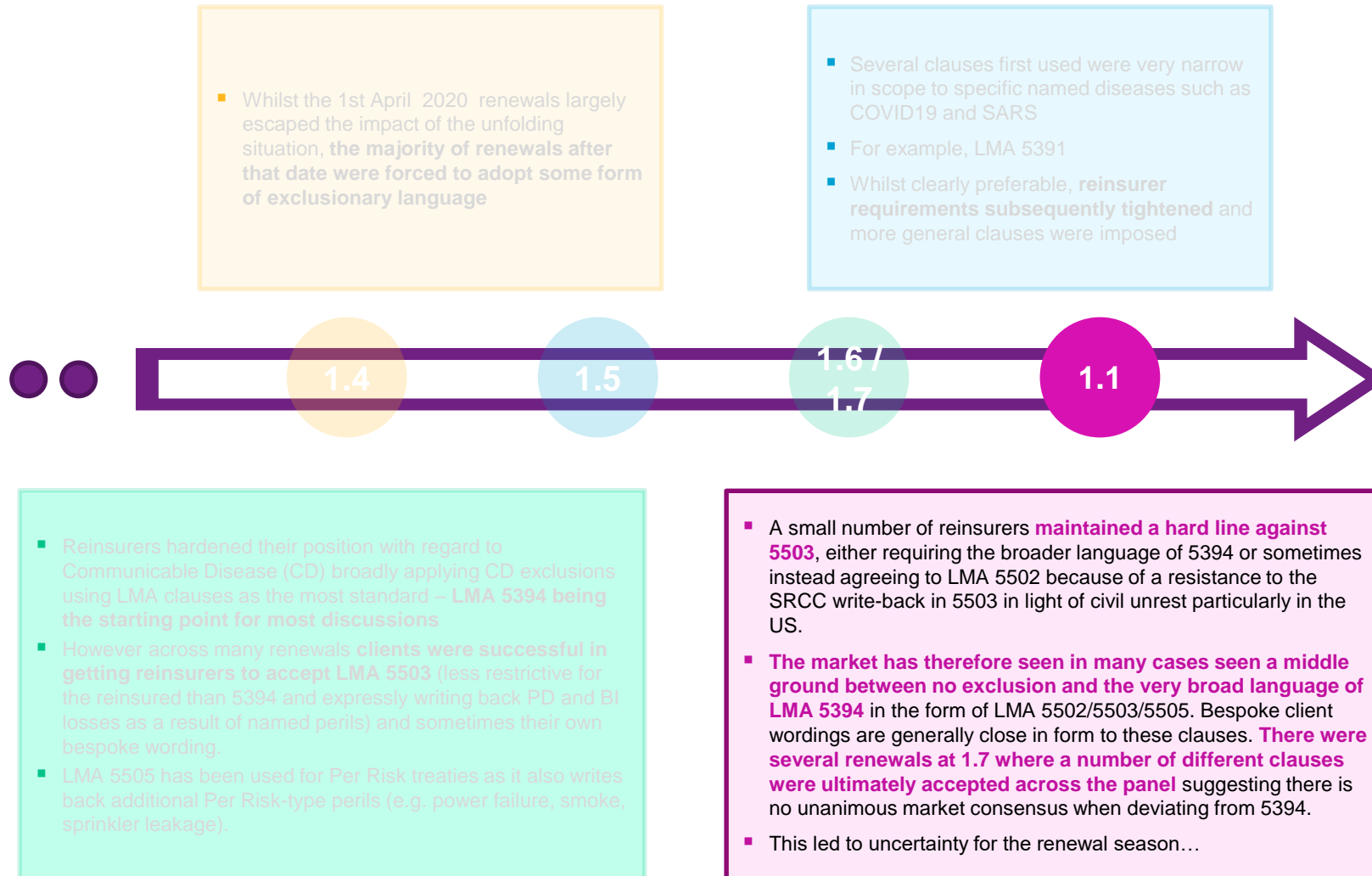
### LIMITED COMMUNICABLE DISEASE EXCLUSION No. 2

1. Notwithstanding any provision to the contrary within this reinsurance agreement, **this reinsurance agreement excludes any loss, damage, liability, claim, cost or expense of whatsoever nature, directly or indirectly caused by, contributed to by, resulting from, arising out of, or in connection with a Communicable Disease** or the fear or threat (whether actual or perceived) of a Communicable Disease regardless of any other cause or event contributing concurrently or in any other sequence thereto.
2. As used herein, a Communicable Disease means any disease which can be transmitted by means of any substance or agent from any organism to another organism where:
  - i. the substance or agent includes, but is not limited to, a virus, bacterium, parasite or other organism or any variation thereof, whether deemed living or not, and
  - ii. the method of transmission, whether direct or indirect, includes but is not limited to, airborne transmission, bodily fluid transmission, transmission from or to any surface or object, solid, liquid or gas or between organisms, and
  - iii. the disease, substance or agent can cause or threaten damage to human health or human welfare or can cause or threaten damage to, deterioration of, loss of value of, marketability of or loss of use of property.

LMA 5394  
**broadly excludes**  
“**all losses** directly  
or indirectly  
caused by,  
contributed to by,  
resulting from,  
arising out of, or in  
connection with a  
Communicable  
Disease or the  
fear or threat of...”

# Communicable Disease Exclusions

## Timeline of developments since 1.4





# Communicable Disease Exclusions

## Key Clauses - LMA 5502

### LIMITED COMMUNICABLE DISEASE EXCLUSION No. 2

1. Notwithstanding any provision to the contrary within this reinsurance agreement, this reinsurance agreement excludes any loss, damage, liability, claim, cost or expense of whatsoever nature, directly or indirectly caused by, contributed to by, resulting from, arising out of, or in connection with a Communicable Disease or the fear or threat (whether actual or perceived) of a Communicable Disease regardless of any other cause or event contributing concurrently or in any other sequence thereto.
2. Subject to the other terms, conditions and exclusions contained in this reinsurance agreement, this reinsurance agreement **will cover physical damage to property insured under the original policies and any Time Element Loss directly resulting therefrom where such physical damage is directly caused by or arising from any of the following perils: fire, lightning, explosion, aircraft or vehicle impact, falling objects, windstorm, rainstorm, hail, tornado, cyclone, typhoon, hurricane, earthquake, seaquake, seismic and/or volcanic disturbance/eruption, tsunami, flood, freeze, ice storm, weight of snow or ice, avalanche, meteor/asteroid impact, landslip, landslide, mudslide, bush fire, forest fire.**

### Definitions

3. Communicable Disease means any disease which can be transmitted by means of any substance or agent from any organism to another organism where:
  - i. the substance or agent includes, but is not limited to, a virus, bacterium, parasite or other organism or any variation thereof, whether deemed living or not, and
  - ii. the method of transmission, whether direct or indirect, includes but is not limited to, airborne transmission, bodily fluid transmission, transmission from or to any surface or object, solid, liquid or gas or between organisms, and
  - iii. the disease, substance or agent can cause or threaten damage to human health or human welfare or can cause or threaten damage to, deterioration of, loss of value of, marketability of or loss of use of property.

4. **Time Element** Loss means business interruption, contingent business interruption or any other consequential losses.

LMA 5502  
**expands on 5394  
by introducing a  
list of perils that  
are written back  
into the coverage**

(in so far as  
permissible by the  
others terms and  
conditions of the  
contract)

It also defines  
Communicable  
Disease and Time  
Element Loss (BI)

It however still  
includes the  
'indirectly caused  
by...' language  
which keeps the  
scope broad

# Communicable Disease Exclusions

## Key Clauses - LMA 5503

### LIMITED COMMUNICABLE DISEASE EXCLUSION No. 2

1. Notwithstanding any provision to the contrary within this reinsurance agreement, this reinsurance agreement excludes any loss, damage, liability, claim, cost or expense of whatsoever nature, directly or indirectly caused by, contributed to by, resulting from, arising out of, or in connection with a Communicable Disease or the fear or threat (whether actual or perceived) of a Communicable Disease regardless of any other cause or event contributing concurrently or in any other sequence thereto.
2. Subject to the other terms, conditions and exclusions contained in this reinsurance agreement, this reinsurance agreement **will cover physical damage to property insured under the original policies and any Time Element Loss directly resulting therefrom** where such physical damage is directly caused by or arising from any of the following perils: fire, lightning, explosion, aircraft or vehicle impact, falling objects, windstorm, rainstorm, hail, tornado, cyclone, typhoon, hurricane, earthquake, seaquake, seismic and/or volcanic disturbance/eruption, tsunamis, flood, freeze, ice storm, weight of snow or ice, avalanche, meteor/asteroid impact, landslip, landslide, mudslide, bush fire, forest fire, **riot, riot attending a strike, civil commotion, vandalism and malicious mischief.**

### Definitions

3. Communicable Disease means any disease which can be transmitted by means of any substance or agent from any organism to another organism where:
  - i. the substance or agent includes, but is not limited to, a virus, bacterium, parasite or other organism or any variation thereof, whether deemed living or not, and
  - ii. the method of transmission, whether direct or indirect, includes but is not limited to, airborne transmission, bodily fluid transmission, transmission from or to any surface or object, solid, liquid or gas or between organisms, and
  - iii. the disease, substance or agent can cause or threaten damage to human health or human welfare or can cause or threaten damage to, deterioration of, loss of value of, marketability of or loss of use of property.

4. **Time Element** Loss means business interruption, contingent business interruption or any other consequential losses.

LMA 5503  
**expands on 5502 by introducing additional perils that are written back into the coverage** (in so far as permissible by the others terms and conditions of the contract)

It also defines Communicable Disease and Time Element Loss (BI)

It however still includes the 'indirectly caused by...' language which keeps the scope broad

# Communicable Disease Exclusions

## Key Clauses - LMA 5505

### LIMITED COMMUNICABLE DISEASE EXCLUSION No. 3 (PROPERTY TREATY REINSURANCE - RISK)

1. Notwithstanding any provision to the contrary within this reinsurance agreement, this reinsurance agreement excludes any loss, damage, liability, claim, cost or expense of whatsoever nature, directly or indirectly caused by, contributed to by, resulting from, arising out of, or in connection with a Communicable Disease or the fear or threat (whether actual or perceived) of a Communicable Disease regardless of any other cause or event contributing concurrently or in any other sequence thereto.
2. Subject to the other terms, conditions and exclusions contained in this reinsurance agreement, this reinsurance agreement will cover physical damage to property insured under the original policies and any **Time Element** Loss directly resulting therefrom where such physical damage is directly caused by or arising from any of the following perils: **mechanical or electrical breakdown**, fire, lightning, explosion, aircraft or vehicle impact, **power failure or surge**, falling objects, windstorm, rainstorm, hail, tornado, cyclone, typhoon, hurricane, earthquake, seaquake, seismic and/or volcanic disturbance/eruption, tsunami, flood, **storm surge, water damage, liquefaction**, freeze, ice storm, **sleet**, weight of snow or ice, avalanche, **smoke, sprinkler leakage**, meteor/asteroid impact, landslip, landslide, mudslide, **sinkhole, collapse**, bush fire, forest fire, riot, riot attending a strike, **looting**, civil commotion, vandalism and malicious mischief.

#### Definitions

3. Communicable Disease means any disease which can be transmitted by means of any substance or agent from any organism to another organism where:
  - i. the substance or agent includes, but is not limited to, a virus, bacterium, parasite or other organism or any variation thereof, whether deemed living or not, and
  - ii. the method of transmission, whether direct or indirect, includes but is not limited to, airborne transmission, bodily fluid transmission, transmission from or to any surface or object, solid, liquid or gas or between organisms, and
  - iii. the disease, substance or agent can cause or threaten damage to human health or human welfare or can cause or threaten damage to, deterioration of, loss of value of, marketability of or loss of use of property.
4. **Time Element** Loss means business interruption, contingent business interruption or any other consequential losses.

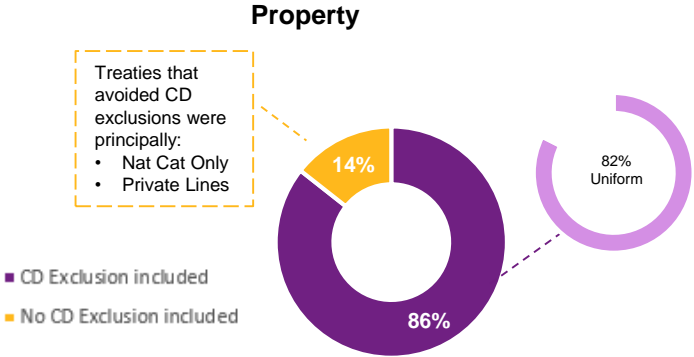
LMA 5505 is identical to 5503 **other than the introduction of more perils** (highlighted in bold)

It is not possible to anticipate all perils in advance, and therefore important to engage with clients as to which are of concern to them

# Communicable Disease Exclusions

During the 1<sup>st</sup> January 2021 renewal CD exclusions became widely applied

% of programmes with a Communicable Disease (CD) exclusion:



For the programmes with a CD exclusion the CD exclusion type was:

**Property**



Vast majority of international reinsurance contracts renewed with the addition of a communicable disease exclusion.



But no market standard text emerged. Many iterations formed from a base of LMA 5502/3/5.

A variety of client and underwriter solutions.



Contractual handling of communicable disease is an evolving topic for our clients.

Are existing solutions fit for purpose / desirable?

\* Willis Re Carrier Management

# What do we expect from reinsurers?

- In times of a soft reinsurance market, coverage broadens
  - Underwriters are pushed hard by C-Suite not to reduce below agreed minimums
  - Reinsurers offer wider coverage rather than give price reductions
  - Exclusions removed from wordings
- However, losses move on, focus changes
  - Hurricane Ida US\$17.5Bn – US\$25Bn
  - German floods EUR 7.5Bn – EUR10Bn (Largest loss in Europe for 20 years)
  - Californian Wildfires US\$10BN-15Bn
  - South African Riots US\$1Bn – 1.5Bn
  - Covid Loss currently US\$24Bn
- Clauses come and go or are amended
  - Y2K in time will become Y3K but not in our lifetime!
  - H5N1 (Bird Flu) - dropped due to a lack of any meaningful transmissions accumulating
  - Terrorism - softened due to some Governments providing a Pool, and Reinsurers changing their appetite in order to cover certain elements of that risk
  - Cyber – appetite for some Reinsurers to provide coverage (although many are re-assessing that)
  - Communicable disease: LMA5391, LMA 5394, LMA 5502, LMA 5503, LMA 5505
- Harder market conditions suggest that Pandemic exclusions will remain in place for a long time to come
  - Further amendments could broaden coverage, but exclusions may not go away
  - Science may play a part if diseases can be eradicated
- What is the situation regarding original policies in Poland
  - Loss activity is limited?
  - Is there demand for pandemic coverage?
  - Chicken or the egg?
  - Insurance Companies or Government pool?

# COVID-19: A Resilient Reinsurance Market Place

## Questions and Answers



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